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C O N F I D E N T I A L SECTION 01 OF 02 SANAA 000819

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SUBJECT: PRESS PLAYS ON EXAGGERATED ECONOMIC FEARS, ROYG
PUNCHES BACK

Classified By: Classified by A/DCM Ken McKune for reasons 1.5 b. and d.

11. (C) Summary: Grave economic consequences from the war in Iraq have been predicted in both official and unofficial Yemeni press. However, most of the articles have been based on conjecture and faulty math. In response, ROYG officials have been reinforcing positive economic news and developing new trade and supply policies to assure the public that the economy is stable. End Summary.

12. (U) Press reports in both the official and opposition media have run several stories projecting a severe negative impact to the economy of Yemen from the war in Iraq. One popular scenario predicts budget losses to the ROYG economy if oil drops to \$8 a barrel. Another, repeated frequently in the English language press, is that the Ministry of Industry and Trade has launched an initiative to fix the prices on thirteen essential commodities. To counter this, the ROYG officials have been promoting a new trade and supply policy, making several statements affirming that there are no food shortages, and announcing new oil finds.

8 USD per Barrel of Oil ?

13. (U) Dr. Muhammed Al-Maytami, a professor of Economics at the University of Sanaa, published an article in Al-Hayat on March 2nd that outlined three scenarios for Yemen if the price of oil drops to 20, 18 and 8 USD a barrel. According to Dr. Al-Maytami's math, if oil drops below 20 USD per barrel, Yemen would likely lose 500 million USD a year. However, his worst case scenario has oil dropping below 8 USD per barrel, and Yemen losing 1.2 billion USD a year. The \$1.2 billion figure for loss has been repeated by al-Jazeera, al-Thawra, al-Hayat and the Yemen Times, often without any reference to the fact that this figure is based on an 8 USD per barrel price.

14. (U) According to Dr. Al-Maytami, the sole strategy of the U.S. war on Iraq was to protect oil prices and keep them under twenty dollars a barrel. In all three price scenarios, implementation of the ROYG's Poverty Reduction Strategy would be delayed because much of the money planned to finance this project was to originate from oil revenue. While most government officials stayed away from such speculation, Under Secretary for Planning and Development Mutahhar al-'Abbasi

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told Al-Hayat that Yemen's 4-5 percent growth rate could be eliminated if the price of oil continues to fall, and added that this loss could have a negative affect on the ability of the ROYG to meet their poverty eradication goals.

15. (C) Comment: According to the World Bank statistics, Yemen's budget is based on the price of oil being 21 dollars a barrel. As this cable is written, oil is about 29 USD per barrel. Therefore, the price can fall much farther without significant harm to the ROYG's budget planning. End Comment.

Price Fixing by the Ministry of Industry and Trade

15. (C) Claiming a crisis in foodstuffs and supplies, the Yemen Times ran a story on April 6, repeated by several internet news outlets, stating that the Ministry of Industry and Trade had resorted to price fixing to control food shortages. Arab Bank Manager Mahdi Allawi told Pol/Econoff that his business contacts were incredulous over the idea of price fixing, and thought the ROYG was not powerful enough to enforce such an economic agenda. He later confirmed that there were no such price fixing plans by the ROYG.

16. (C) Post obtained a copy of trade and supply proposal and confirms that there are no subsidies or price restrictions discussed in the plan. However, the Ministry of Industry and Trade has been given authority to oversee production to ensure that there are no food shortages. An Embassy FSN recently traveled to Al-Jowf, a rural northern governorate, and reports that he saw no food shortages. Some businessmen Pol/econoff have spoken with have reported that business is indeed down because of the war, but there have been no accounts of empty shelves and wide-spread hoarding of food by

Yemenis. Comment: While misrepresented, the new supply proposal is most likely an effort to assure the average citizen that the war will not drastically affect their day-to-day lives. End comment.

ROYG Pushes Economic Success Stories

17. (C) In an effort to get out in front of the dire predictions, several government officials have reinforced positive economic news. Prime Minister Ba Jammal affirmed on several occasions that there were no food shortages in Yemen. Later, Minister of Oil and Minerals Rashid Salih said his ministry would soon declare new oil discoveries in Hadhramout and Shabwah. On April 3, he told Yemen's Sabaa news agency that "oil sales, navigation and even investments didn't get affected by the war." Reinforcing the message, Minister of Trade and Industry Muhammed Uthman noted on several occasions that food supplies were stable and even threatened to punish those who raise prices to gain economic advantage as a result of the war.

8.(C) Comment: Economic worries over a significant drop in oil prices and food shortages reflect greater concerns over long-term economic stability in Yemen. It is widely understood that oil revenues account for approximately 35% of GDP, although some of the articles referred to in this piece claim that 95% of Government revenue comes from oil. Many Yemenis Pol/Econoff has spoken to, including several FSNs, believe part of the U.S. strategy behind the war in Iraq is securing cheap oil. Therefore articles that emphasize drastic price drops in oil and the subsequent harm to the Yemeni economy, however farfetched, are likely to resonate with the average Yemeni citizen.

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